

Message Text

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ACTION EUR-12

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FRB-03 INR-10 NSAE-00 SP-02 STR-07 TRSE-00 LAB-04
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PA-01 SS-15 ICA-11 /096 W
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R 181643Z JUL 78
FM AMEMBASSY BRUSSELS
TO SECSTATE WASHDC 7944
INFO ALL EC CAPITALS
AMEMBASSY VALLETTA

C O N F I D E N T I A L SECTION 01 OF 02 BRUSSELS 14071

USEEC

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SUBJ: WESTERN EUROPE'S DIALOGUE WITH MALTA -- EC-MALTA
RELATIONS

REF: (A) 77 BRUSSELS 12921 (B) BRUSSELS 10128
(C) ROME 12167 (D) VALLETTA 2064

1. SUMMARY: WHILE OVERALL STATE OF PLAY IN WESTERN
EUROPE'S CONSIDERATION OF ECONOMIC ASSISTANCE TO MALTA
FOLLOWING BRITISH WITHDRAWAL NEXT MARCH APPEARS SOMEWHAT
MURKY TO US, APPARENTLY THE WEST EUROPEANS ARE OPERATING
ON TWO ESSENTIALLY SEPARATE TRACKS WHICH MAY, HOWEVER,
ULTIMATELY INTERSECT. IMPLEMENTATION OF THE 1976 EC-
MALTA FINANCIAL PROTOCOL IS NOW BEING EXAMINED IN THE
FORMAL EC INSTITUTIONAL FRAMEWORK, ALTHOUGH EC COMMISSION
OFFICIALS SAY THAT EC-MALTESE TALKS ON IMPLEMENTATION HAVE
NOT TO DATE BEEN VERY SATISFACTORY. PERMREP OFFICIALS, WHO
APPARENTLY HAVE LITTLE KNOWLEDGE OF THE DETAILS, TELL US
THAT QUESTION OF POSSIBLE ADDITIONAL WEST EUROPEAN ASSIS-
TANCE--I.E., THE ECONOMIC DIMENSION OF MINTOFF'S
NEUTRALITY PACKAGE--IS BEING CONSIDERED IN BONN, PARIS,
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AND ROME, OUTSIDE THE EC FRAMEWORK, ALTHOUGH THESE
OFFICIALS THINK THAT THE MATTER COULD SOON BE TAKEN UP
WITHIN THE CONTEXT OF THE NINE'S POLITICAL COOPERATION,
EITHER AT THE EXPERTS LEVEL OR BY POLITICAL DIRECTORS.
END SUMMARY.

2. FOR ABOUT THE LAST YEAR MALTA HAS BEEN ON THE EC'S
BACKBURNER. HOWEVER, THERE HAVE BEEN SOME INFORMAL CON-

TACTS DURING THAT PERIOD, AND IT IS EVIDENT THAT EFFORTS ARE CURRENTLY UNDERWAY TO REACTIVATE THE MALTA DOSSIER, AS THE COMMUNITY CONSIDERS HOW IT CAN, WITHIN THE FRAMEWORK OF THE 1976 FINANCIAL PROTOCOL, ASSIST MALTA TO MEET ITS ECONOMIC DIFFICULTIES WHEN THE BRITISH WITHDRAW NEXT SPRING. AFTER CONSIDERABLE DELAY, THE EC COUNCIL ADOPTED EARLIER THIS MONTH A SET OF "GUIDELINES" TO GOVERN EC-MALTA ECONOMIC AND FINANCIAL COOPERATION--GUIDELINES WHICH WERE PROPOSED BY EC-MALTA ASSOCIATION COUNCIL IN MARCH 1977, AND SUBMITTED TO THE EC COUNCIL LAST NOVEMBER. (COPIES OF GUIDELINES WERE POUCHED TO EUR/RPE AND EMBASSY VALLETTA EARLIER THIS YEAR.) THE GUIDELINES INDICATE THAT EUROPEAN ASSISTANCE SHOULD, IN CONSIDERABLE MEASURE, BE CHanneled TOWARD THE INDUSTRIAL SECTOR.

3. IN MARCH, 1977, THE EC TOLD MALTA THAT EC MEMBER-STATE RATIFICATION OF THE 1976 PROTOCOL SHOULD BE COMPLETE BY MID-1978 AND THAT DURING THE FIRST YEAR TO 18 MONTHS AFTER PROTOCOL'S ENTRY INTO FORCE, UP TO HALF THE 26 MILLION UNITS OF ACCOUNT(1 U.A. \$1.25 APPROXIMATELY) UNDER THE PROTOCOL COULD BE DISBURSED, LARGELY TO SUPPORT INDUSTRIAL SECTOR PROJECTS (77 BRUSSELS 5274). EC RATIFICATION IS NOT YET COMPLETE. PERMDEL SOURCES ATTRIBUTE THIS TO: (A) OTHER, HIGHER PRIORITY MEMBER-STATE PREOCCUPATIONS; AND (B) FACT THAT INDEPENDENT SURVEY OF MALTA'S ECONOMIC NEEDS AND PROSPECTS, WANTED BY GERMANS, PARTICULARLY, BUT ALSO CONFIDENTIAL

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BY SOME OTHER EC MEMBERS, HAS NOT YET TAKEN PLACE BECAUSE OF WHAT EUROPEANS, RIGHTLY OR WRONGLY, CONSIDER MINTOFF'S NON-COOPERATION WITH EXPERTS EARLIER CHOSEN TO UNDERTAKE THE SURVEY (REF A).

4. DESPITE THE FOREGOING, THERE IS, ACCORDING TO COMMISSION AND COUNCIL SOURCES, A WILLINGNESS WITHIN THE EC TO GET ON WITH SERIOUS PLANNING FOR DISBURSEMENTS UNDER THE FINANCIAL PROTOCOL. THESE SOURCES ALLEGE, HOWEVER, THAT THE COMMUNITY HAS BEEN SOMEWHAT STYMIED BY MALTA'S FAILURE TO SPECIFY PROJECTS WHICH MIGHT BE ELIGIBLE FOR EUROPEAN INVESTMENT BANK (EIB) LOANS UNDER THE PROTOCOL, OR TO IDENTIFY OTHER SECTORS WHERE TECHNICAL ASSISTANCE MIGHT BE PROVIDED. A RECENT COMMISSION MISSION TO MALTA WAS APPARENTLY UNABLE TO GET ANY PRECISION FROM MALTESE AUTHORITIES ON HOW THEY INTENDED TO DO THEIR PART IN IMPLEMENTING THE EC-MALTA ECONOMIC/FINANCIAL COOPERATION GUIDELINES REFERRED TO IN PARA 2 ABOVE. THESE OFFICIALS NOTED THAT THE EC IS UNWILLING TO DOLE OUT COMMUNITY FUNDS WITH LITTLE KNOWLEDGE OF HOW THEY ARE TO BE USED. PERMDEL SOURCES HAVE ECHOED THESE VIEWS, OBSERVING THAT MALTA HAS AN OBLIGATION TO IDENTIFY PROJECTS TO RECEIVE EIB LOANS.

5. RECENT LOCAL PRESS REPORTS INDICATE THAT EARLIER THIS SUMMER THE MALTESE TOLD THE COMMISSION THAT MALTA'S EFFORTS TO ATTRACT INDUSTRIAL INVESTMENT FROM GERMANY, FRANCE, THE U.K., AND BELGIUM, WHICH EIB LOANS COULD THEN SUPPLEMENT, HAVE BEEN UNAVAILING. ACCORDING TO THESE REPORTS, THE GOM ASKED THEREFORE THAT MALTA BE ALLOWED TO USE THE EIB LOANS (16 MILLION U.A. OF THE OVERALL 26 MILLION U.A. UNDER THE FINANCIAL PROTOCOL) PRIMARILY FOR INFRASTRUCTURE PROJECTS, AND THAT THE RATE OF INTEREST ON THE LOANS BE NO MORE THAN 3 PERCENT, RATHER THAN AT THE NORMAL HIGHER EIB

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TO SECSTATE WASHDC 7945
INFO ALL EC CAPITALS
AMEMBASSY VALLETTA

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LENDING RATE. (COMMENT: WHILE MISSION DOES NOT KNOW WHETHER THE EC HAS GIVEN A FORMAL REPLY TO THIS REQUEST, THE EC COUNCIL'S ADOPTION OF "GUIDELINES" SUBSEQUENT TO THE REPORTED MALTESE REQUEST, PLUS THE COMMUNITY'S GENERAL DISINCLINATION TO PROVIDE MALTA RELATIVELY UNRESTRICTED INFRASTRUCTURE ASSISTANCE, SUGGESTS THE COMMUNITY DOES NOT LOOK ON THE REQUEST FAVORABLY. ON THE OTHER HAND, PERMDEL OFFICIALS TELL US THAT COREPER'S "MEDITERRANEAN GROUP" IS CONSIDERING, THUS FAR WITHOUT RESULT, WHETHER THE FINANCIAL PROTOCOL'S TERMS MIGHT SOMEWHAT BE IMPROVED. END COMMENT.)

6. A COMMISSION OFFICIAL TOLD US LAST WEEK THAT THE LONG-DELAYED VISIT TO MALTA BY EXPERTS FROM A PRIVATE GERMAN CONSULTING FIRM (REF B) IS LIKELY TO OCCUR IN LATE JULY, WITH A SUBSEQUENT TEAM GOING TO MALTA IN SEPTEMBER. SOURCE NOTED THAT PRIMARY PURPOSE OF TRIP IS NO LONGER

TO DRAW UP A BROAD ECONOMIC SURVEY AS PREVIOUSLY ANTICIPATED, BUT RATHER TO PROVIDE TECHNICAL ASSISTANCE IN PLANNING INDUSTRIAL PROJECTS. HE FURTHER SAID THAT ONCE THE FIRM HAS WORKED OUT ITS CONTRACT WITH MALTESE AUTHORITIES, THERE IS A POSSIBILITY THAT EC, UNDER ITS TECHNICAL
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ASSISTANCE PROGRAM, WILL PARTIALLY FINANCE THE WORK.

7. A GERMAN PERMREP OFFICIAL TOLD US LAST WEEK THAT THE EC AS AN INSTITUTION HAS NOT BEEN SEIZED WITH THE PROBLEM OF ADDITIONAL EUROPEAN AID FOR MALTA UNDER MINTOFF'S NEUTRALITY PROPOSAL. HE THOUGHT THIS PROBLEM WAS, FOR NOW, BEING EXAMINED IN THE RELEVANT EUROPEAN CAPITALS (I.E., BONN, PARIS, AND ROME), BUT CONSIDERED IT POSSIBLE THAT THE EC NINE, EITHER AT THE EXPERTS OR THE POLITICAL DIRECTORS LEVEL MIGHT TAKE THE MATTER UP SHORTLY TO DISCUSS TO WHAT EXTENT, AND UNDER WHAT UMBRELLA (I.E., EC, BILATERAL OR OTHERWISE) WESTERN EUROPE COULD PROVIDE AN APPROPRIATE RESPONSE. A DANISH PERMREP OFFICIAL, ON THE OTHER HAND, IN DESCRIBING TO US THE COREPER MEDITERRANEAN GROUP'S RECENT EFFORTS TO SEE HOW EC ASSISTANCE UNDER THE 1976 FINANCIAL PROTOCOL MIGHT BE IMPROVED, IMPLIED THAT ITALY, FRANCE, AND GERMANY WERE QUIETLY STIMULATING THIS EXAMINATION. THE DANE SAID THAT ITALY, IN PARTICULAR, WOULD LIKE TO SEE ANY ADDITIONAL WEST EUROPEAN AID FOR MALTA PROVIDED UNDER AN EC UMBRELLA, EVEN THOUGH ROME BELIEVED THAT THE WEALTHY GERMANS SHOULD BE THE ONES TO PAY. DANISH OFFICIAL THOUGHT IT WOULD BE DIFFICULT TO USE COMMUNITY UMBRELLA BECAUSE OF IMPLICATIONS THIS WOULD HAVE FOR OTHER MEDITERRANEAN COUNTRIES DISSATISFIED WITH THEIR FINANCIAL PROTOCOLS WITH THE EC. IN ANY CASE, GERMAN AND DANISH PERMREP OFFICIALS OBSERVED THAT DURING THE PRESENT GERMAN EC PRESIDENCY THE TWO TRACKS ON WHICH THE EUROPEANS HAVE BEEN OPERATING COULD INTERSECT A BIT MORE OBVIOUSLY AND THAT OUTLINES OF ADDITIONAL EUROPEAN ASSISTANCE TO MALTA, IF ANY, BECOME CLEARER.

8. COMMENT: FROM OUR CONVERSATIONS HERE, IT APPEARS THAT IN LOOKING TOWARD THE BRITISH WITHDRAWAL AND END OF
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THE NATO SUBSIDY TO MALTA, THE EUROPEANS HAVE, AT A MINIMUM, BEGUN TO CONSIDER HOW THEY CAN MOST EFFECTIVELY IMPLEMENT THE 1976 EC-MALTA FINANCIAL PROTOCOL, EVEN THOUGH SPECIFIC PLANS FOR DOING SO HAVE NOT YET

CRYSTALLIZED. BEYOND THAT, THE ANSWER TO ADDITIONAL ASSISTANCE--WHETHER TO PROVIDE IT, AMOUNTS, AND MODALITIES OF DISBURSEMENT--LIES IN BONN, PARIS, AND ROME, ALTHOUGH, AS NOTED, OUR SOURCES DO NOT RULE OUT THE POSSIBILITY THAT SOME ADDITIONAL AID COULD ULTIMATELY BE PROVIDED WITHIN AN EC CONTEXT. HINTON

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